

AN INVESTIGATION OF HOW TECHNOLOGY CAN ENHANCE THE EFFECTIVENESS OF FINANCIAL ADVICE FOR PERSONAL FINANCIAL MANAGEMENT

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ABSTRACT

Many people believe that a change in personal financial management is necessary due to factors including rising per capita income, extending life expectancy, nuclear families replacing joint families, and the absence of a strong social security system. Financial Advisory is therefore urgently needed. With a focus on personal financial management, this chapter aims to examine the relationship between the importance of technology in financial counselling. The study focuses on outlining how technology is currently used, opportunities for improvement, and how this affects the calibre of financial advice given to individuals managing their own finances. The financial counselling industry is also experiencing technological upheaval as a result of machine learning and artificial intelligence being more accessible to the general public. Even though there is a wealth of information at our fingertips, advisors will always be essential to achieve the goals of financial inclusion, financial independence, financial maturity, and financial stability.

Keywords: Financial advisory, Personal financial management, Fintech, Financial inclusion, Financial planning, Financial freedom

1. Introduction

The financial services industry is being disrupted by technologies that are paving the way for a future characterized by customer-centric products and solutions. Established financial institutions will need to innovate quickly if they are to remain relevant in this new environment and the competitive challenges posed by emerging digital (FinTech) competitors. Understanding the future of financial services, sports trends by reshaping the race with rivals, seizing new opportunities and building a winning strategy for turbulent times will all play an important role in thriving in a world of digital disruption. With rising income levels, awareness and the need for financial planning, retail investment was on the rise even before the current pandemic era. Lockdowns and working from home only made young investors actively participate in various financial markets to explore, experience and test their financial literacy. The government's financial inclusion initiatives have also played a leading role in making this happen. Although the contribution from retail investors is a pittance compared to institutional investors, it plays an important role in increasing the need for qualified and experienced financial advisors. There has been

a major shift in investment patterns, which is especially visible after the 2020 pandemic, as pointed out by Mr. Dhiraj Relli, MD & CEO, HDFC Securities. The money management investor grew active by a staggering 14.2 million in FY21, with 12.25 million new accounts opened on CDSL and 1.9 million on NSDL.

In principle, interest in financial planning in India has been growing for some time now; about 15+ years. Proper investment management and sound financial decisions require time, skill and effort. Busy business executives, startup founders, working parents and caregivers have a lot more on their plate than actively monitoring their finances. Finding time to research financial issues, evaluate different options, and make decisions takes a lot of time. A financial advisor's ability is worth keeping the investor on track and proactively identifying financial risks and opportunities. A wealth manager can help qualify and quantify investment decisions.

Demand drivers such as higher disposable incomes, customized financial solutions and supply drivers such as new service providers in existing markets, new financial solutions and products, etc. are driving the growth of the financial services industry in India.

2. Review of literature

An extensive literature review is conducted to understand the studies that have been conducted in this subject. A literature review is conducted based on timelines to form an opinion on the direction of research that has been taken in evaluating the effectiveness, efficiency and effectiveness of implementing technology in improving financial advisory services.

Bashir & Qureshi (2022) study is a systematic literature review of various high impact publications and journals. The study revealed that financial well-being needs to be understood qualitatively and quantitatively separately. Financial well-being is a subjective concept and the implementation of technology plays a vital role in increasing the growth of personal financial management.

Ozturan et al. (2021) revealed the readiness of the financial industry to adopt technology to improve efficiency in the midst of a raging pandemic. The problems arising from the pandemic situation have led people to look for an alternative way of financing. As a result, digital transactions have risen to the level with the growing digitization of financial services.

India is the country with the highest number of young people. There is a gender gap in financial goals, which requires different approaches to all components of financial planning.

Goel & Khanna (2014) argue that financial literacy equips individual investors with the ability to know, monitor and effectively use financial resources to increase well-being and economic security for themselves, their families and their businesses. This awareness can be built more effectively through technology. It is important to understand the role and scope of technology implementation for raising awareness of financial products, strategies and knowledge.

Mahapatra et al. (2017) describes that the concept of financial planning has been an area of research interest for several years. In financial planning, cognitive factors prevail in the financial decisions of individuals. The impact of various cognitive factors in personal financial planning of Indian households was studied with respect to risk attitude, financial attitude and financial knowledge. The author

has tried to show the decision aspects of personal financial planning and thereby highlight the extent of need and limitations in the growth of personal financial planning.

Munohsamy and Thulasimani (2015) observed that financial experts agree that the amount of knowledge about how to manage this money has not kept up – not at all. Taking responsibility for planning and managing finances and putting them into practice is increasingly important. It is important to have a consensus between financial advisors and investors in order to develop the best plan. It is important to understand the readiness of the investor rather than the ability of the advisor.

Kwela (2015) pointed out that personal financial management education has focused on best practices that are supposed to ensure long-term financial security, but very few people actually implement such practices. It is important to understand and experience the magic of composition. When playing the long-term goal, the investment intent also matters a lot. The spell of compounding will improve the level of patience among investors which will lead to long stay in the financial plan.

Murphy et al. (2010) focused on MBA students' attitudes towards personal financial planning. The study also reports that less than 13 percent have prepared a comprehensive personal financial plan. Respondents perceive a need to feel that their financial planner will put their needs first. A hallmark of independence was less dependence on a financial planner. During this period, things start to go wrong and then the respondents were observed to look for financial planners.

Khasanah & Irawati, (2022) states that financial literacy is an important parameter for financial advisory services. Raising the level of literacy should be the goal of financial advisory service providers. Financial technology and financial access can be complementary to increase participation and effective personal financial management.

Law & Zuo (2022) this paper sheds light on the role of economic conditions in the composition of financial advisory services. Services in a recession have a greater added value compared to an inflationary trend. Economic conditions have an effect on shaping the types of financial advisors.

Kassem et al (2021) focuses on the use of mobile technology as an important tool for portable and convenient financial advisory services. People from a farming background in particular can use this facility and use the advisory services to their advantage. It also mentions the fact of how farmers behave about the information available to them.

Research gap, research questions and hypotheses

From the literature review, it is evident that there is a need to evaluate the level of satisfaction of current technological applications in the area of Personal Financial Management (PFM) by financial advisors, as well as various areas of improvement with regard to the use of technology in SVF and to perceive whether the use of technology will affect the quality of financial advice related with SVF. Based on this, the following research questions are formulated.

RQ1- Are current technological applications in the field of public finance management by financial advisors satisfactory?

RQ2 – What are the areas of improvement in the use of technology?

RQ3 - Will technology affect the quality of financial advice related to personal financial management?

To test this, the following hypotheses were formulated.

H01: There is no relationship between the current use of technology in personal financial advice.

H02: Technology does not play a role in financial advice.

H03: The use of technology will not affect the quality of financial advice in the area of personal financial management

3. Methodology

3.1 Population and sample

The population for this study was practicing financial advisors from across India. The Mint (2021, p) stated that there are around 2,000 certified financial planners in India. Their details were obtained from the Securities and Exchange Board of India (SEBI). A questionnaire was sent to them. Reference to standard sample size tables such as Krejcie and Morgan (1970) returns a sample size of 322 for a population of 2000 at a 95% confidence level

and 5% confidence interval. A total of 356 responses were received meeting the sample size requirements. Ten senior financial advisors were interviewed personally.

3.2 Questionnaire

The questionnaire was designed and placed in Google Forms. It had the following sections:

Profile information

Section I - Current Uses of Technology

Section II - Areas of Improvement

Section III – Impact on the quality of financial advice

The sections were designed to collect the information needed to test the three hypotheses, and each contained ten statements. Answers were sought on a 5-point Likert scale. Respondents were provided with a Don't Know filter (DK Filter) as suggested by Menold and Bogner (2016), leaving Cannot Say as the first option in the response list.

3.3 Hypothesis testing methodology

Scores for all statements were averaged on a 5-point Likert scale. Using these weights, a single average percentage of agreement and disagreement (from 356 respondents) was developed for each of all responses. These all means were further averaged to calculate a single Likert-scale aggregate agreement/disagreement percentage across all statements. The maximum of these two (agree/disagree), that is, the mean of the response choices, was then compared to the assumed 50% percentage of agreement/disagreement, meaning agreement/disagreement at random, to determine whether the overall agreement/disagreement was statistically significant or not. A t-test was then used to test statistical significance at the 95% confidence level by comparing the sample mean to the predicted population mean, taking into account the sample standard deviation. Null hypotheses were tested for rejection or otherwise based on p-values. For example, in the case of Section I, the responses for ten individual statements were first calculated and averaged for the 356 respondents. The percentage of disagreement (is higher than agreement/disagree) was compared to 50% disagreement, which represented a random event. A t-test taking into

account the sample standard deviation was used and the first null hypothesis was tested based on the t-statistic and the resulting p-value.

4. Data analysis and interpretation

Testing the 1st hypothesis

H01: There is no relationship between the current use of technology in personal financial advice.

The mean percentage of disagreement was compared to the predicted population mean of 50% disagreement, which considered it a random event, and whether or not the sample mean was statistically significant at the 95% confidence level.

The hypothesis was tested by comparing the sample mean (mean awareness score for 356) to the predicted population mean of 5 (which is the midpoint of the 0-10 score). The results showed that the sample mean (\bar{x}) was 61%. The same was compared to the predicted population mean of 50%. The sample standard deviation was 0.804. Taking a sample size of 356, the t-statistic was 2.55, the p-value for which was <0.0001 . Therefore rejected.

Testing the 2nd hypothesis

H02: Technology does not play a role in financial advice.

The responses of 356 respondents to the statements in Section II of the questionnaire were averaged and further averaged for the ten statements into a single percentage of agreement for the entire section.

The mean percentage of agreement was compared to the predicted population mean with 50% agreement, which considered it a random event, and whether or not the sample mean was statistically significant at the 95% confidence level.

This hypothesis was tested by comparing the sample mean (mean awareness score for 356) to the predicted population mean of 50%. The results showed that the sample mean (\bar{x}) was 80%. The sample standard deviation was 0.924. Taking a sample size of 356, the t-statistic was 6.14, the p-value for which was <0.0001 . Therefore rejected

Testing the 3rd hypothesis

H03: The use of technology will not affect the quality of financial advice in the area of personal financial management

The responses of the 356 respondents to the statements in Section III of the questionnaire were averaged and further averaged for the ten statements into a single percentage of agreement for the entire section.

The mean percentage of agreement was compared to the predicted population mean with 50% agreement, which considered it a random event, and whether or not the sample mean was statistically significant at the 95% confidence level.

The sample standard deviation was 0.911. Taking a sample size of 356, the t-statistic was 6.48, the p-value for which was <0.0001 . Therefore rejected

5. Conclusion

Three conclusions clearly follow from this. First, the current use of technology by financial advisors is far from satisfactory. Technology adoption is lagging behind expectations in various investment-related areas. Technology is not satisfactorily used in investment planning. The same is the case with dealings with clients. Technological gaps are observed in the interface with external contacts with sites such as moneycontrol.com. There are barriers to technology adoption by both investors and financial advisors. It's quite a curious case and worth investigating further given the technological advances available. With the rapid expansion of Internet use, access to technology has improved in recent years. In practice, however, actual use lags behind. The second conclusion is that there is good room for improvement, which financial advisors agree with. This is a positive sign and reflects a belief on the part of advisors that there are benefits expected from using the technology. Agreeing to an area of improvement suggests optimism on the part of financial advisors.

Overall, there is a strong case for technology adoption by financial advisors in the area of personal financial management. As suggested by the panel of experts, there is also a strong case for the application of machine learning and artificial intelligence in HR financial management. However, the penetration of these technologies is so far limited to only selected urban locations in the country.

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